

Overseas Business Insights

August 2017

U.S. Department of State
Bureau of Western Hemisphere Affairs



In this Issue:

Brazil – Oil and Gas Auctions	1
Canada – Innovation Supercluster	1
Chile – Small Business Leader	2
Jamaica – Business Process Outsourcing ...	3
Mexico – High-Tech Industry.....	4
Resource Links	6

Brazil: Upcoming Oil and Gas Auctions

Brazil will hold hydrocarbon auctions on September 27 and October 27. The government expects intense interest in its offshore offerings, which could potentially kick off a cycle of energy investment unlike anything seen in Brazil since 2008 when Brazil raised more than \$200 million in auction revenue (bonuses) alone. Between 2008 and 2013, the country held no oil and gas auctions while

carrying out a protracted and spirited national discussion about how to regulate its offshore reserves. The Temer Administration has gone a long way towards rolling back above-ground challenges

in the oil and gas sector, including removing Petrobras *pre-salt* sole operatorship, reducing local content requirements (LCRs), and establishing a calendar of auctions through 2019. However,

some industry experts remain concerned that these liberalizations may still be insufficient.

The 14th bid round includes 287 blocks which are a mixture of non-pre-salt opportunities, including onshore, offshore, frontier, and mature basins. Brazil's National Petroleum Regulator (ANP) has already announced the first 21 of 36 international oil companies (IOC) that intend to



(continued on page 5)

Canada Moving Forward on "Innovation Supercluster" Strategy

The Canadian government has based much of its economic strategy around its "Innovation and Skills Plan," unveiled in March as the theme of the government's 2017 Budget. The plan centers

around providing Canadian workers with the skills and tools they need to succeed in an increasingly competitive and digital economy. The Canadian Chamber of Commerce called on the Canadian

government to develop a more "aggressive" innovation strategy in its 2016 Barriers to Competitiveness report.

The government's strategy, in part, addresses the skill level of the Canadian

labor market through its Innovation Supercluster Initiative (ISI). The government announced its intention to invest C\$950 million over five years, beginning in 2017-18, to support "a small number of business-led super-



Canada (continued)

clusters that have the greatest potential to accelerate economic growth.” The government defines a supercluster as a dense area of business activity that demonstrates collaboration between large and small companies, as well as post-secondary and research institutions, and other innovation actors. The government is aiming to support up to five superclusters through this investment and began soliciting proposals May 24 to support the devel-

opment of superclusters around specific industries including clean technology, advanced manufacturing, digital technology, health/bio-sciences, agri-food, and infrastructure and transportation.

The Toronto-Waterloo corridor is particularly well-positioned to emerge as one of Canada’s superclusters with 15,000 high-tech companies, over 250,000 tech workers, and \$14 billion in equity value. The top 5 traded clusters in Toronto and Ontario are business

services, financial services, distribution services, transportation and logistics, and publishing and printing. There are efforts underway in Atlantic Canada to establish a “pan-Atlantic oceans cluster.” The Montreal Metropolitan area developed its own cluster initiative in 2005 to unite large and small businesses and research institutions in the Montreal area. There are currently nine Montreal clusters: Information and Communications Technolo-

gies (ICT); Aluminum; Clean Technology; Fashion; Film; Financial Services; Life Sciences; Logistics and Transportation; and Aerospace. Vancouver, too, has a fast-growing technology sector looking to attract federal funding, boasting more than 9,000 companies, 150,000 tech workers, and ties to west coast technology hubs in Seattle and Silicon Valley. Vancouver has particular strength in the areas of augmented/virtual reality and quantum computing.

Chile's Rise as Global Small Business Development Leader

Chile has been internationally recognized for its innovative policies promoting the development of small and medium-sized enterprises (SMEs) and a strong entrepreneurial ecosystem. The country ranked first in Latin America in the *Global Entrepreneurship Monitor’s Entrepreneurship Index* for 2016, and an impressive 19th globally. Entrepreneurs are realizing

steady gains in Chile – where 95 percent of businesses are classified as micro or small – under an administration that has prioritized innovation and support for SMEs. A 2016 Gust and Fundacity study ranked Chile in the top five countries in the world for startups. It also found that Chile invests the second highest amount per capita in its entrepreneurial commu-

nity, including through an unparalleled Small Business Development Centers (SBDC) network.

Just a few years back, Chile set out to establish itself as the small business and entrepreneurial hub of Latin America – and it succeeded. With 51 SBDCs operating in all 15 regions of the country and serving more than 15,000 clients,

Chile’s SBDC network is now considered an international model for countries aiming to develop networks of community-based centers to help entrepreneurs and small business owners succeed and create jobs.

Chile’s SBDC program has supported the formalization of 1,347 new firms and helped create 2,111 new jobs in the formal sector, while increasing tax



revenues by \$6.2 million. Between June 2016 and June 2017, SBDC client firms increased their sales by \$39 million, more than doubling the amount the government

had anticipated for the period (\$17.3 million). Additionally, 2,732 firms reported increased sales, a remarkable achievement during a period of overall sluggish

economic growth in Chile.

With the conclusion of the initial phase of opening all 51 centers in Chile’s SBDC network, opportunities for contin-

ued U.S. - Chile bilateral engagement in the small business development realm remain plentiful.

Jamaica: Business Process Outsourcing a Small but Growing Sector

The Government of Jamaica continues to focus on growing Jamaica’s Business Process Outsourcing sector, a networking concept that has generated well over \$100 billion worldwide. Business Process Outsourcing (BPO) is the contracting of business services to third party providers, including a range of services such as customer care, human resources, accounting and finance, and graphic design. One of Jamaica’s bright spots, BPO has been the fastest growing employer of labor during the past decade, almost doubling employment from 12,000 to 26,000 from 2011 to

April 2017, approximately 2 percent of Jamaica’s total workforce, and contributing an estimated \$383 million to the economy in 2016, equivalent to approximately 2.7 percent of GDP. There are an estimated 60 companies operating BPOs in Jamaica, with U.S. companies comprising 90 percent of operators. Significant investment is expected from the U.S. in coming years -- not only BPO service providers but also companies supporting build-out of physical infrastructure and auxiliary services, including energy solutions.

BPO is a key component of the Holness admin-

istration’s promise to deliver on its ambitious economic growth and job creation agenda and reduce the official unemployment rate of 12.7 percent. To drive economic growth and job creation, the Government of Jamaica seeks to nearly double employment in the BPO sector to 44,000 by 2020, with politicians calling for Jamaica’s transformation into a global BPO powerhouse in the next few years.

Despite some regulatory challenges, infrastructure development to support a growing BPO industry has been strong. In addition to private sector developments, the Jamaican

government created a financing facility through its development bank and mandated its state-owned land owning agencies to develop infrastructure for the sector. The Business Process Industry Association of Jamaica reported that 1 million square feet of specific-use commercial buildings are expected to be ready for use within two to three years, 60 percent privately funded and 40 percent publicly funded.



Guadalajara: Silicon Valley of Mexico

Guadalajara, in the Mexican state of Jalisco, has long manufactured high-tech products for multinational and U.S. companies on contract. The area is now developing into a destination for design and software companies with strong ties to Silicon Valley. Guadalajara's tightly knit tech community consistently attracts new investment from the United States and elsewhere, adding to the more than 600 technology companies already established. The state of Jalisco has adopted the "capital of innovation" slogan and all levels of government promote record-setting tech gatherings and an ambitious Digital Creative City concept to further burnish Guadalajara's "Silicon Valley of Mexico" luster.

Technology trailblazers established themselves in Guadalajara as early as 1968, attracted to the area by a low-cost, educated, non-striking workforce. Adequate highways facilitated quick transport of small, high-value electronics to Mexico City, Monterrey, or the U.S. border overnight. The pioneers proved successful and other parts of the supply chain followed eventually employing tens of thou-



sands. The high-tech sector blossomed and evolved into an "ecosystem" that eases access into a network of over 600 companies, 52,000 employees, and the generation of over half of Jalisco's exports for companies of any size. Jalisco's tech/electronics industry is strongly integrated with the United States, sending 66 percent of its exports there and bringing 16 percent of its imports in from the United States.

Guadalajara has a long history of active industry trade associations and business chambers. The non-profit organization IJALTI networks hundreds of IT companies providing over 78,000 jobs, offers seminars, and operates a software cluster housing 40 startups. Guadalajara has seven co-working spaces in the tech and innovation sector. Perhaps most important of all are 70 small "communities"

that focus on aspects of the tech-innovation-creative continuum.

Most of Mexico's prominent universities have campuses in Jalisco (principally in metro Guadalajara) and the state attracts students from western Mexico and beyond, graduating over 10,000 engineers and technicians each year. Industry wants more, and draws tech talent from other cities. Private industries are not traditionally linked closely to universities in Mexico (unlike in the United States) and research funding is scarce, but the University of Guadalajara, ITESO, Panamericana, Tec de Monterrey in Guadalajara, and others have incubators or accelerators that pair students with companies for mentoring and practical entrepreneurship. Abundant companies also make tech-sector internships easy to find. Industry often finds the English-language skills of technical graduates to be poor, but institutions such as Tec de Monterrey do require fluency to graduate. Jalisco will participate with the rest of Mexico in a newly-launched program that will by 2023 require graduating teachers (K-through-9th-grade teachers) to be bilingual, something which will benefit everyone a generation from now.

Brazil (continued from page 1)

participate. IOCs will be particularly focused on potentially lucrative offshore areas in the Campos basin near productive *pre-salt* fields. The Brazilian government estimates earning a minimum \$532 million in bonus payments for the round. Thirty-six IOCs, including two American firms, have confirmed their participation in the September 27 auction.

Brazil's September auction is only a warm-up for the main event: the October 27 *pre-salt* bid rounds. The October auctions (called the 2nd and 3rd *pre-salt* rounds) are significant because they represent the first time IOCs will have access to Brazil's *pre-salt* fields without the previous requirement that Petrobras serve as sole operator. The *pre-salt* is known for the most productive offshore wells in the world and massive reserves, although they are some of the

deepest offshore wells in existence. Some hyper-productive *pre-salt* wells produced more than 30,000 barrels per day, which is nearly three times higher than the Gulf of Mexico's top producers. The second *pre-salt* round will focus on "unitized" areas inside the Campos and Santos offshore basins, or areas adjacent to existing fields, but outside their boundaries. The third *pre-salt* round will include four pre-salt blocks in the Santos and Campos basins (Peroba, Pau Brasil, Central Cabo Frio High, and West Cabo Frio High). Petrobras has exercised its preferential rights over Peroba and Cabo Frio areas, guaranteeing an operator stake of 30 percent while freeing five other blocks for operatorship and greater competition. *Pre-salt* reserves are also known for large volumes of gas, which could further facilitate the

marketability of oil discoveries.

Concerns over the cost of producing technologically challenging *pre-salt* oil and gas were not an issue in the high oil price scenario prior to 2015, when oil surpassed \$100 per barrel (bbl). In subsequent years, many companies concluded that *pre-salt* production could not be profitable at \$50/bbl. Despite the lack of exploratory drilling, Brazil's *pre-salt* is so prolific that production is ramping up and it now represents more than 50 percent of Brazil's national production. In June, Brazil's *pre-salt* oil production exceeded all other domestic oil production. The potential for *pre-salt* layers to exist under known post-salt fields in the Campos basin, for example, where production equipment is already in place, could also drive greater interest in Brazil's offshore acreage.



Other resources for anyone interested in overseas business news:

For **Caribbean and Latin American Markets**, the Department of Commerce has many resources to assist U.S. firms including market research, trade show calendars, trade delegation calendars, etc. Check out their “Trade Americas” and “Look South” websites:

<http://export.gov/tradeamericas/index.asp>

<http://export.gov/tradeamericas/looksouth/index.asp>



The U.S. Government’s main website to assist U.S. businesses at home and abroad. URL at <http://business.usa.gov/>

PLEASE TELL US HOW WE ARE DOING

Overseas Business Insights is for you. Tell us how we can improve it, what you think of it, what you are interested in hearing about in the future, etc.

Contact us at WHA-OBI@state.gov

All issues of Overseas Business Insights are available upon request. Just email us at the above address.



The Business Information Database System (BIDS) is a portal built to help U.S. businesses learn about significant international commercial opportunities. The site connects U.S. business to detailed information about each project as well as information to contact U.S. embassies overseas. URL at <http://bids.state.gov/>



The Direct Line program provides a unique opportunity for American businesses, particularly small- and medium-sized enterprises, to engage directly via webcast with U.S. Ambassadors overseas. The program is open to U.S. companies – whether they are already in the country where the Ambassador serves or if they are interested in expanding their businesses there. Webcasts will vary in topic according to the specific needs for business in a given country. URL at <http://www.state.gov/directline/>

DISCLAIMER: The U.S. Department of State provides the information contained in the Overseas Business Insights newsletter solely for our readers’ information. Every effort has been made to provide accurate and complete information. However, neither the U.S. government nor the Department of State guarantees or assumes any legal liability for the accuracy, completeness, or usefulness of any information disclosed in the Overseas Business Insights newsletter.

